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Brazil

Retail Food Sector

Report

2001

Approved by:

Marcus E. Lower

Director, U.S. Agricultural Trade Office, São Paulo

Prepared by:

Fabiana Borges da Fonseca

Agricultural Marketing Specialist

Top Brazilian retailers are maintaining investments and elaborating new store formats. Likewise, small and medium retailers are going through segmentation and differentiation in order to maintain market share. Despite uncertainties related to Brazilian macroeconomic conditions, the economic problems in Argentina and the impact of the Brazilian electric energy shortage, the retail sector continues to expand.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
São Paulo [BR3], BR

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I. Market Summary

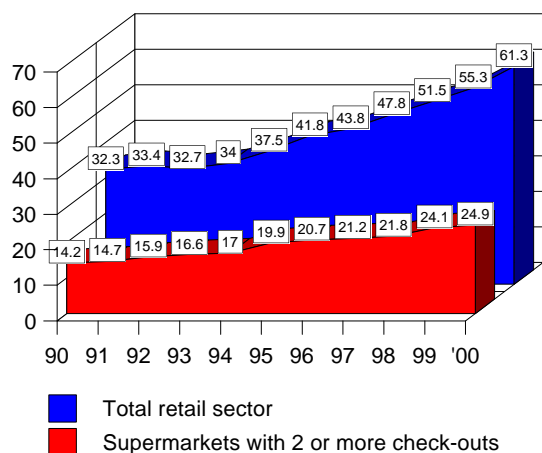
Following the 1999 currency crisis when the Brazilian Central Bank abandoned the fixed exchange rate system, the Brazilian economy registered surprisingly positive results. In 2000, according to the Brazilian Institute of Geography and Statistics (IBGE), the gross domestic product (GDP) amounted to Reals (R\$) 1.09 trillion (R\$1.83/US\$1), which represented 4.5 percent growth compared to 1999. Applying the IGP-DI index, the inflation rate for the year was 9.8 percent. However, the IPCA-IBGE index, which is the official rate, indicates inflation for the period at 5.97 percent. Another thermometer for the Brazilian economy is the U.S. dollar (US\$) exchange rate, which closed 2000 at R\$1.83/US\$. Currently, the exchange rate is oscillating near R\$2.50/US\$1. Therefore, economic uncertainties, which include problems in Argentina and the Brazilian electric energy shortage, may affect all sectors of the economy and the GDP growth projection goal may be revised by the Government of Brazil (GOB).

Brazil is presently in the midst of a critical electrical energy shortage. Low water levels, resulting from several years of scarce rainfall, are hampering the local hydro-electric system, which supplies the bulk of the country's electricity. The only near-term solution is conservation. The GOB has mandated for a 20 percent reduction in use through the remainder of the winter dry season for much of the economy and has threatened significant surcharges and service cuts to enforce the needed conservation. It is hoped that the upcoming rainy season, which normally begins in November over much of Brazil, will bring relief. Longer-term solutions, such as investment in alternative generation options, are under review.

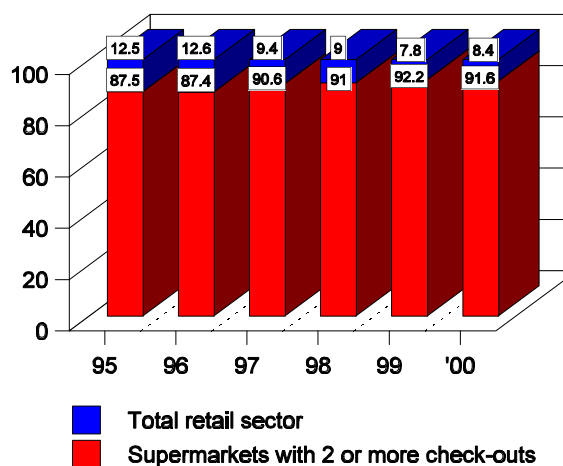
In 2000, the food retail sector accounted for 6.2 percent of GDP, following the positive trend of the economy. The sector summed R\$67.8 billion (US\$37 billion), in nominal value, which is a 12.4 percent increase compared to 1999. However, if applying the IGP-DI deflation index, sector results fall to R\$59.4 billion, which represent a revenue decrease of 1.23 percent. Nevertheless, it still is an impressive result for the sector when one notes that deflated gross sales declined 2.7 percent in 1999.

In 2000, the supermarket segment – stores with 2 or more check-outs – generated gross sales amounting to R\$62.1 billion, accounting for 92 percent of the entire food retail sector. The retail sector closed the year with 61,259 stores. Despite ongoing consolidation, the supermarket segment retains 23,220 stores, or 38 percent of the total in the country, demonstrating the fragmentation of the industry. According to the Brazilian Supermarket Association (ABRAS), the top 20 retail companies represent 41 percent of sector total gross sales, the top 50 represent 58 percent, and the top 500 retail companies are responsible for 68 of total sales. In 2000, mergers continued which, through acquisitions and openings of new stores, enabled the 20 top retail companies to expand their store numbers by 12 percent.

Number of Stores
(In thousands)



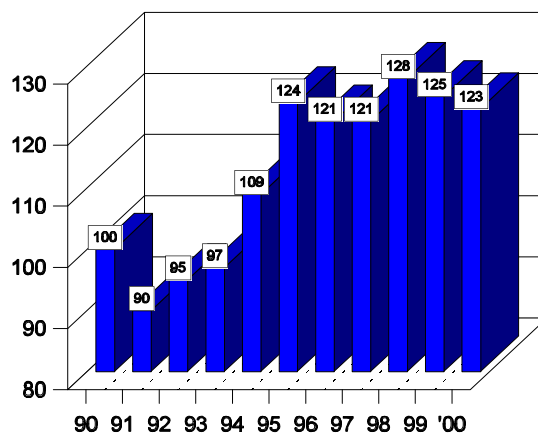
Gross Sales
(% over sector revenue)



Source: ABRAS

According to trade analysts, retail income is forecasted to reach R\$72.4 billion by 2003. Nevertheless, the performance of the Brazilian economy again will define whether or not this goal is feasible.

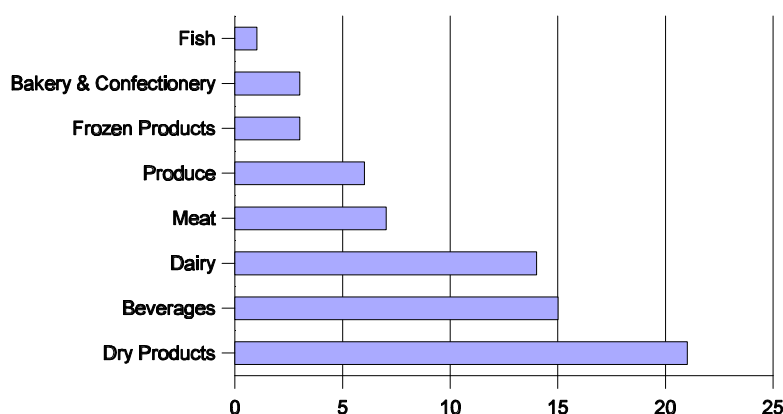
Retail Gross Sales Index (R\$)
(Deflated by IGP-DI Index, 1990=100)



Source: ABRAS

Traditionally, a Brazilian supermarket is divided into approximately 13 food and non-food departments. Based on research conducted in 2000 with the top 500 retail companies, ABRAS released the market share of the eight larger food and beverage departments. This information allows food manufacturers, distributors and importers to better evaluate the supermarket sector.

Share of Food & Beverage Departments at Top 500 Brazilian Retail Stores (%)



Source: ABRAS

Other important information consolidated by ABRAS, addresses sales of private label and imported products among the top 500 Brazilian retailers. In order to provide a broader mix of products to consumers, retail companies are investing more on private label. In 1999, gross sales of private label items represented 3 percent of the total supermarket sales. In 2000, private label accounted for 4.7 percent of total sales. Imported products, however, have registered a different course. According to ABRAS, imported products represented 1.5 percent of gross sales in 1999. In 2000, that share decreased to 1.2 percent. However, the ABRAS rank does not include specialty stores. At those stores, the share of imported items can reach 20 percent of gross sales. Among top retailers, the margin of imported products is also higher than the average, reaching 5 to 10 percent of total revenues. In addition, due to the currency devaluation in 1999, many importers took a very conservative approach towards imports during 1999 and 2000 as economic conditions were forecast to have been worse than actually occurred.

Advantages and Challenges in the Brazilian Food Distribution Sector

Advantages	Challenges
The entry of international companies generates more dynamic trade.	Cultural barriers can significantly restrict international business.
U.S. products enjoy a status of high quality and product safety.	A lack of trade and consumer knowledge of U.S. products and brands still exists. In Brazil, U.S. culinary culture is often related to fast-food. This perception is very strong among importers and consumers which gives European products a competitive advantage when developing niche markets targeting upper-end consumers.

U.S. exporters are perceived as very reliable; much more so than European and other third-country suppliers.	Paradoxically, U.S. suppliers are viewed as “distant” and too contract oriented. European business are considered very flexible regarding local retailers demands and more customer oriented, which gives them a certain advantage and easier entry. Local representation is important.
Segmentation and differentiation in the retail sector.	Today, most imported items are not price competitive with the local items. Therefore, in order to develop niche markets and generate differentiation, new high-end products are being sought for the market.
The U.S. is a reference for the local industry. Major American trade shows are well known and visited.	U.S. suppliers are viewed as one-shot-sellers and need to develop a long-term relationship with local buyers. Regular contact is very important.
The trend towards convenience grows consistently. A healthier life style has been pursued by consumers living in metropolitan areas. The local industry still has very limited experience in handling/marketing products that combine both characteristics.	Highlight characteristics of U.S. products to develop this niche market. Overcome barriers such as the reluctance of importers towards the importation of refrigerated items.

II. Road Map for Entry

A. Super Stores, Supermarkets, Hyper Markets or Super Centers, Club and Warehouse Outlets

Entry Strategy

To introduce U.S. products in the Brazilian market, U.S. exporters should initially research the market to determine whether their product can be competitive. Brazil is a large country with many cultural differences. In general, exporters' entry strategies tend to focus on the populous Southeast region and then spread out to other areas. However, it is important to understand that regional differences in eating and buying habits and seasons will likely define the need for a variation in strategy.

Developing a relationship with top importers and retailers will help increase visibility and countrywide coverage. The retail industry is well developed and its power of negotiation has increased tremendously in recent years. Retailers are well aware of their pivotal position in the food distribution and retail system. When approaching retailers, European companies project a flexible attitude and a willingness to negotiate. U.S. companies on the other hand, are very pragmatic. Even though what defines the purchase are commercial terms, retailers frequently comment that U.S. exporters are very rigid and "distant".

Some factors U.S. exporters should consider when developing a strategy for selling products to Brazil are:

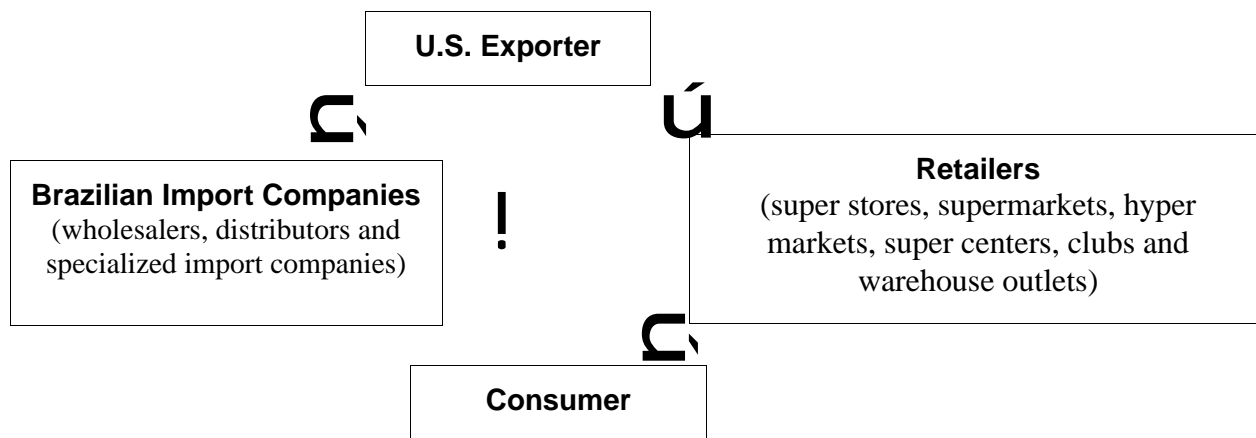
- be able to deal in the local language, which is Portuguese, NOT Spanish -- conversation and product material;
- adapt packaging and labeling to local requirements and market needs;

- approach local import companies, as most have storage facilities and can provide technical and distribution support;
- approach companies that have access to large and small key players in the food distribution system;
- have good technical/sales support staff readily available to buyers;
- product availability and volume are needed to develop a long-term relationship;
- exclusive representation arrangements are often required by importers;
- develop regular-basis relationship: while phone, fax and e-mail convey information, face-to-face contact cements contacts;
- participation in major trade shows demonstrates presence and interest;
- never underestimate Brazilian contacts as they tend to be well educated and well informed;
- learn about Brazil and understand its position within Latin America and the world;
- plan to be patient and understand that, like Americans, despite grumbling about the government, economic and social situations, Brazilians are very proud of their country.

U.S. exporters should always consider the U.S. Agricultural Trade Office the initial source of market information and support. The ATO maintains direct contact with many local importers and retailers, a network that continues to grow. U.S. companies can always tap into information on upcoming activities and gain insights on effective entry strategies by consulting the ATO. Such contact and feedback also further strengthens ATO capabilities and focus. There are several sector associations that can also assist and that release updated studies on different product sectors, such as the Brazilian Supermarket Association (ABRAS), the Brazilian Food Processors' Association (ABIA), the Brazilian Wholesalers Association (ABAD), and others.

Market Structure

Imported products enter Brazil via specialized importers and retailers. With the ongoing consolidation, major retailers are increasingly becoming frequent direct importers. However, even top retailers slip always from certain product categories, preferring to buy from local importers to minimize logistic operations. While avoiding the distributor seems to be a general goal, it only happens if retailers are able to buy in container lots and hold down overhead. Otherwise, direct imports cannot be justified. As international investment in the retail sector grows, structural changes are happening in the industry. Internationally centralized purchases are becoming more frequent and the domestic structure is increasingly efficient. Nevertheless, local stores are still important players in the buying decision process.



Company Profiles

Retailer Name	Ownership	Sales* (R\$ Mil)	Share	N° of Outlets	Location Headquarter	Purchasing Agent Type
Pão de Açúcar Group	Brazilian/ French	9,550	14.1	416	São Paulo	FPI, LI, DI
Carrefour	French	9,520	14.1	201	São Paulo	FPI, LI, DI
Bompreço	Dutch	3,042	4.5	106	Pernambuco	FPI, LI, DI
Sonae	Portuguese	3,000	4.4	170	Rio Grande do Sul	FPI, LI, DI
Casas Sendas	Brazilian	2,478	3.7	83	Rio de Janeiro	FPI, LI, DI
TOTAL TOP 5		27,600	40.8	976		
Wal Mart	American	1,211	1.8	20	São Paulo	FPI, LI, DI
Se/Jeronimo Martins	Portuguese	934	1.4	59	São Paulo	FPI, LI, DI
Cia Zaffari	Brazilian	754	1.1	19	Rio Grande do Sul	FPI, LI, DI
G. Barbosa	Brazilian	629	0.9	35	Sergipe	FPI, LI, DI
Coop Cooperativa de Consumo	Brazilian	543	0.8	14	São Paulo	FPI, LI
TOTAL TOP 10		31,673	46.8	1,123		
A. Angeloni	Brazilian	483	0.7	17	Santa Catarina	FPI, LI
Irmaos Breta	Brazilian	470	0.7	33	Minas Gerais	FPI, LI
Lider Supermercados	Brazilian	381	0.6	11	Pará	FPI, LI
ABC Supermercados	Brazilian	368	0.5	27	Rio de Janeiro	FPI, LI
Sonda Supermercado	Brazilian	354	0.5	7	São Paulo	FPI, LI
DMA Distribuidora	Brazilian	310	0.5	27	Minas Gerais	FPI, LI
Condor Supermercados	Brazilian	308	0.5	18	Paraná	FPI, LI
Empresa Baiana de Alimentos	Brazilian	269	0.4	414	Bahia	FPI, LI
Supermercados Vitoria	Brazilian	260	0.4	40	Santa Catarina	FPI, LI
Y.Yamada	Brazilian	252	0.4	11	Pará	FPI, LI
TOTAL TOP 20		35,135	52	1,728		FPI, LI

(Food Processing Industry = FPI, Local Importer = LI, Direct Import = DI)

* R\$1.83/US\$)

Source: ABRAS/Rank 2000

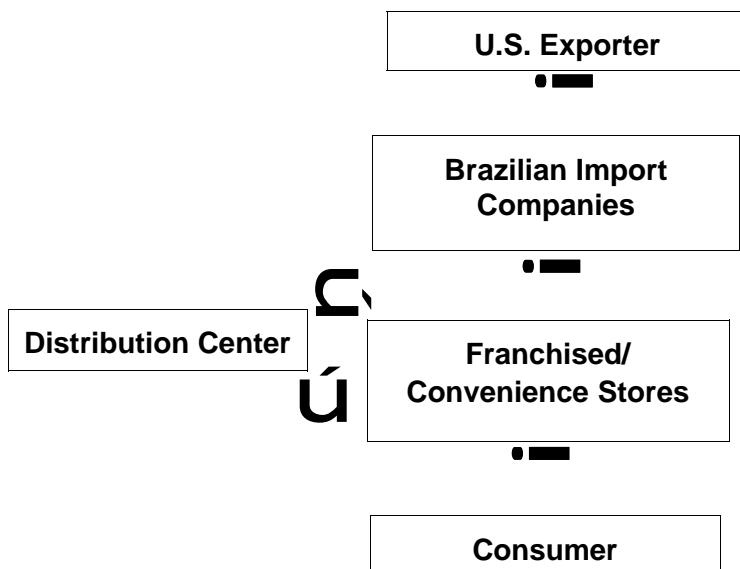
B. Convenience Stores, Gas Marts, Kiosks

Entry Strategy

Buying and distribution vary by company. Direct owned stores in the same general area have central distribution. Franchised shops tend to have an established list of products. Lists are determined by franchiser to maintain quality and uniformity. Franchisee, however, is allowed a certain number of locally acquired products to fit specialized local consumer preference.

- Convenience stores are nearly all associated with a gasoline station. New stations will tend to have an attached convenience store, unless space limitations prohibit.
- Imported products are not excluded.
- Presently, imports have a very small presence but include products such as Pringles, wines, candies.
- Sector is new, innovative and growing.
- Selling to sector will require contact with individual companies. Most are headquartered in Rio de Janeiro and São Paulo.
- São Paulo and Rio de Janeiro have 75-80 percent of the total sector.
- Tend not to import directly.

Market Structure



Company Profiles

The growth in this sector is a function of time, location and service. While hypermarket business has increased, so has that of the convenience store. To an increasing extent, consumers will do their major buying at a hypermarket or neighborhood supermarket and then fill in with purchases at a local convenience store. Growth

in this area has come to a large extent at the expense of the traditional "Mom and Pop" type corner businesses due to improved marketing, modern design and the variety of quick food products available. Most convenience stores are of the "gas mart" variety and the shift in that direction continues. While Shell opened the first shop of this type 12 years ago, the U.S. style "convenience store" entered Brazil in the early 1990's when the first 7-11 opened. Growth in this sector continues rapid, going from 46 shops in 1990 to 2,200 in 2000. Industry projects 5,000 stores by 2002. While located throughout the country, a higher concentration will be in São Paulo and Rio. Competition is also stiff, as noted by 7-11 leaving the market in 1998, primarily due to the lack of a gasoline company connection.

Another niche in this sector may be the video stores, such as the expanding Blockbuster chain. Convenience foods, such as snacks, like in the U.S., are very popular and imported items are noted.

Products handled by this sector tend toward small portion, snacks, ready to eat or prepared food products, much as would be expected in the U.S. The presence of imported product varies but are by no means excluded.

Retailer Name and Market Type	Ownership	Sales US\$	Share number of stores	Purchasing Agent Type
BR Mania	Brazilian	N/A	22.82	FPI, LI
AM PM	Brazilian	N/A	22	FPI, LI
Hungry Tiger	Brazilian	N/A	20.77	FPI, LI
Select (Express L.C. S. Ltda)	Brazilian	N/A	15.4	FPI, LI
Star Mart	Brazilian	N/A	14	FPI, LI
Stop & Shop	Brazilian	N/A	4.27	FPI, LI

Source: Trade Data/1999

C. Traditional Markets - "Mom and Pop" Small Independent Grocery Stores and Wet Markets

Entry Strategy

Depending on location, "Mom and Pop" stores and wet markets in Brazil go from very poor to very sophisticated conditions. They comprise bread shops, specialty shops, such as delis and butcher shops, vegetable stands, tobacco stands, etc. In addition, the roaming street markets, "feiras", which have a different location each day of the week, are a traditional presence in the Brazilian culture. In general, this segment tends toward national items. Nevertheless, a small percentage is specialized in high-quality items, which presents potential to U.S. companies. As the segment buys in small quantities, direct contact with exporters can be very limited. Nevertheless, certain wholesalers/distributors specialize in working with this sector.

Most purchases of processed food products by small independent grocery stores are made in less than case lot from a distributor who may also distribute imported products. U.S. exporters will need to deal with the local wholesalers, importers and distributors [in order] to access the "independent" segment of the food retail system.

In order to deal with these players, exporters may consider the same guidelines mentioned as entry strategy for the retail sector.

Market Structure

As retail concentration became more accentuated in the past years, the "independent" segment got special attention from the food industry. To assure their needs, the food industry formed an alliance with food distributors and wholesalers. Hence, an increasing number of wholesalers are becoming specialized in product categories for this market segment. The food processors, at a certain level, are responsible for this trend as they require more services from intermediates between themselves and the retail sector.

The food processing industry also requires semi-exclusive contracts, which means that distributors agree to be in charge of a certain geographic area and handling a non-competitive line of products. In general, those distributors prefer supermarkets with 3 to 10 check-outs. The traditional wholesaler still deals with small business. However, the trend towards cash-and-carry is increasing.



Sub-Sector Profile

Wholesaler Name	Ownership	Sales* (R\$ Mil)	N° of Outlets	Location Headquarter	Purchase Agent type
Makro Atacadista	Brazilian	2,048	33	São Paulo	FDI, LI, DI
Martins Com. e Serv. Distr.	Brazilian	1,368	0	Minas Gerais	FDI, LI, DI
Atacadao	Brazilian	1,334	16	São Paulo	FDI, LI, DI
Arcom Com. Imp. Exp.	Brazilian	811	0	Minas Gerais	FDI, LI
Ciro Distr. de Alimentos	Brazilian	536	6	São Paulo	FDI, LI
Peixoto Com. Ind. Serv. Transp.	Brazilian	385	0	Minas Gerais	FDI, LI
Atacado Vila Nova	Brazilian	370	2	São Paulo	FDI, LI, DI
Elo Distribuição	Brazilian	345	0	Goiás	FDI, LI

Zamboni Distribuidora	Brazilian	214	0	Minas Gerais	FDI ,LI, DI
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(Food Processing Industry = FPI, Local Importer = LI, Direct Import = DI)

* R\$1.83/US\$)

Source: Brazilian Food Wholesalers and Distributors Association (ABAD)/Rank 2000

III. Competition

Competition for U.S. products comes primarily from MERCOSUL countries -- Argentina, Uruguay and Paraguay. The EU and Chile are other major suppliers. In general, imports have been contracting since 1996. This decline is a consequence of local food industry development and the Brazilian currency devaluation. Imports realized, on average, a 30 percent decrease in 1999. As Brazilian consumers adjusted to this shift, a different scenario has emerged.

Today, imported products are less likely to compete with the local industry price wise, as was the case in the initial years (1994-98) of the Real Plan. Consequently, many foreign products have disappeared from supermarket shelves. Import companies are now targeting the upper level consumer. Buyers are often seeking known brands that they, and consumers, recognize from travel overseas. Imports do have niche markets to develop as high-end consumers are willing to pay more for trendy products with no similar item in the domestic market and to try new products they find interesting.

Despite the perception of economic downturn, U.S. exports to Brazil increased slightly in 2000 over 1999. Nevertheless, U.S. products still face "cultural" barriers. Brazilian consumers tend to regard U.S. products as "fast-food" or "junk-food". Even though American products are widely accepted as high-quality and safe, they are not generally viewed as healthier or more sophisticated, which is the general perception for European products.

IV. Best Product Prospects

A. Products Present in the Market Which have Good Sales Potential

According to the U.S. Bureau of the Census Trade Data, U.S. exporters of consumer-oriented products to Brazil increased 6 percent in 2000 compared to the previous year. Product categories responsible for this rise were: red meat, fresh/chilled/frozen (19 percent); dairy products (65 percent); eggs & products (55 percent); fresh fruit (30 percent); fresh vegetables (45 percent); processed fruit & vegetables (9 percent); fruit & vegetables juices (28 percent); wine & beer (23 percent); and pet foods (dog & cat food) (2 percent).

Due to the relatively low value of the Real, vis-à-vis major currencies, market opportunities for imported products are most likely to be developed among high-end consumers. Brazilian importers have been challenged to find new products that respond to targeted opportunities. Regardless of the product category, food items entering the market are more sophisticated and demonstrate a higher value to consumers. Concurrently, import volumes are lower, with a higher unit value and are more diversified.

B. Products Not Present in Significant Quantity but Which Have Good Sales Potential

According to A.C. Nielsen, the top growing segments in 2000, when compared to 1999 were: frozen meal (26 percent), iced tea (25 percent), baking mixes (14 percent), flavored milk (12 percent), cereal (11 percent) and refrigerated dough (94 percent). Nevertheless, U.S. exports of those items are relatively low.

Other segments not well explored by the local industry are semi-baked products, health foods and processed organic foods and beverages. Convenience and health are two growing trends that have not been combined into a single product by the Brazilian industry. Upper-end consumers living in metropolitan areas are becoming more and more aware of quality of life, which translates into healthier products, less time to cook, clean, etc., but do not appear to be overly processed. Products categories able to fit in this consumer profile have an interesting potential.

C. Products Not Present Because Face Significant Barriers

Except for poultry meat, products of animal origin (beef, pork, seafood, and dairy) are allowed into the Brazilian market, if products come from U.S. federally inspected plants with approval of the Brazilian Animal Products Origin Inspection Service (DIPOA). Unprocessed products of plant origin (fruits, seeds, grains) can be exported to Brazil after a pest risk analysis of the product is completed by the Brazilian Plant Health and Inspection Service (DDIV), and if accompanied by USDA/APHIS/PPQ phytosanitary certificate.

For additional information on GOB regulations regarding imports of agricultural and food products from the United States, such as labeling requirements, including transgenic, etc., please check the "Food and Agricultural Import Regulations and Standards" (FAIRS) report, number BR1615, dated July 31, 2001 at the USDA/FAS Home Page, "www.fas.usda.gov".

V. Post Contact and Further Information

Should you have any question or comments regarding this report or need assistance exporting processed food products to Brazil, please do not hesitate to contact :

U.S. Agricultural Trade Office

AMCONGEN, São Paulo

Unit 3502

APO AA 34030-3502

Alameda Santos, 2224 - cj.11

01418-200 São Paulo, SP, Brazil

Phone: 55-11-3082-3528

Fax: 55-11-3083-7535

E-mail: atosaopaulo@fas.usda.gov

USDA/FAS Home Page: www.fas.usda.gov

APO AA 34030-3500

Av. das Nações, lote 03

70403-900 Brasilia, DF, Brazil

Phone: 55-61-226-3159

Fax: 55-61-226-6784

E-mail: agbrasil@fas.usda.gov

Office of Agricultural Affairs

AMERICAN EMBASSY

Unit 3500

Other information sources include:

Brazilian Supermarket Association (ABRAS)

Av. Diogenes Ribeiro de Lima, 2872

05083-901 São Paulo, SP, Brazil

Phone: 55-11-3838-4500

Fax: 55-11-3837-9933

E-mail: info@abrasnet.com.br

Home Page: www.abrasnet.com.br

Brazilian Food Processors' Association (ABIA)

Av. Brigadeiro Faria Lima, 1478 - 11° andar

01451-913 São Paulo, SP, Brazil

Phone: 55-11-3816-5733

Fax: 55-11-814-6688

E-mail: abia@uol.com.br

Home Page: www.abia.org.br

Brazilian Food Wholesalers and Distributors Association (ABAD)

Av. Nove de Julho, 3147 - 11° andar

01407-000 São Paulo, SP, Brazil

Phone: 55-11-3885-9616

Fax: 55-11-3885-6840

E-mail: abad@abad.com.br

Home Page: www.abad.com.br

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